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COLUMBIA

CHARLESTON

FLORENCE

GREENVILLE

Haynsworth
Sinkler Boyd, P.A.

ATTORNEYS AND COUNSELORS AT LAW

1201 MAIN STREET, 22ND FLOOR (29201-3226)
POST OFFICE BOX 11889 (29211-1889)
COLUMBIA, SOUTH CAROLINA
TELEPHONE 803.779.3080
FACSIMILE 803.540.7721
WEBSITE www.hsblawfirm.com

BELTON T. ZEIGLER, ESQUIRE
DIRECT DIAL NUMBER 803.540.7815
EMAIL BELTONZEIGLER@hsblawfirm.com

March 22, 2006

VIA ELECTRONIC AND HAND DELIVERY

The Honorable Charles Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Drive, Suite 100
Columbia, SC 29210

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COMMISSION

Re: South Carolina Electric & Gas Company Annual Review of Base Rates for Fuel Costs
Docket No. 2006-2-E
HSB File No. 04381.0237

Dear Mr. Terreni:

South Carolina Electric & Gas Company ("SCE&G" or the "Company") hereby files twenty-five (25) copies of the pre-filed rebuttal testimony of the Company's witnesses: Jimmy E. Addison, Gerhard Haimberger (Redacted), and Rose Jackson.

Because of the commercial sensitivity and proprietary nature of the testimony and in light of the highly competitive nature of the industry in which SCE&G purchases and transports coal and other fuels, and the confidentiality terms of the Company's agreements with coal suppliers and railroads, the Company respectfully requests that the Rebuttal Testimony of Gerhard Haimberger be received in its original form under seal for Commission review. In accordance with Order No. 2005-226 of Docket No. 2005-83-A, SCE&G is providing twenty-five (25) unredacted copies of the true and correct confidential Rebuttal Testimony of Gerhard Haimberger (GH Rebuttal Testimony) in a sealed envelope marked "CONFIDENTIAL." We would request that the Commission treat the GH Rebuttal Testimony and all copies thereof as confidential and proprietary, and we are providing the GH Rebuttal Testimony with the expectation that it is exempt from disclosure to any third parties, including but not limited to exemption from disclosure under the Freedom of Information Act, S.C. Code Ann. §§ 30-4-10 *et seq.*, or any other provision of law. *See, e.g.*, S.C. Code Ann. Regs. 103-303, -304(Y). We would further request that in the event that anyone should seek disclosure of the GH Rebuttal Testimony, that the Commission would give SCE&G notice of such request and provide it with an opportunity to

obtain an order from this Commission or a court of competent jurisdiction protecting the GH Rebuttal Testimony from disclosure. We trust that the Commission would support our efforts.

While SCE&G would prefer that the Commission not make any copies of the GH Rebuttal Testimony, SCE&G would further request that should any copies of the confidential testimony be made, the Commission provide certification either that all such copies have been destroyed or that all copies have been returned to SCE&G at the close of the proceeding.

By copy of this letter, I am serving all parties of record with the copy of the testimony of Jimmy E. Addison and Rose Jackson and the redacted copy of the testimony of Gerhard Haimberger. In as much as all parties to this proceeding have signed confidentiality agreements with SCE&G, I am also serving them copies of the GH Rebuttal Testimony under seal and marked confidential. The GH Rebuttal Testimony be subject to the provisions of the confidentiality agreements between these parties and SCE&G. I am enclosing my certificate of service to that effect.

Thank you for your consideration in this matter. If you have any questions or need additional information, please do not hesitate to contact me.

With kind regards,



Belton T. Zeigler

BTZ/abm

enclosures

cc: Shannon Bowyer Hudson, Esquire
E. Wade Mullins, III, Esq.
Damon E. Xenopoulos, Esquire
Scott Elliott, Esquire

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-2-E**

INRE:

**South Carolina Electric & Gas Company
Annual Review of Base Rates for Fuel Costs**

CERTIFICATE OF SERVICE

I, the undersigned employee of Haynsworth Sinkler Boyd, P.A., do hereby certify that I have caused the foregoing to be served via courier, *or by other delivery as indicated*, to all parties of record at the addresses shown below.

Document(s):

SOUTH CAROLINA ELECTRIC & GAS COMPANY'S REPLY
TESTIMONY OF GERHARD HAIMBERGER (REDACTED), REPLY
TESTIMONY OF GERHARD HAIMBERGER (UNREDACTED),
REBUTTAL TESTIMONY OF ROSE JACKSON AND REBUTTAL
TESTIMONY OF JIMMY ADDISON

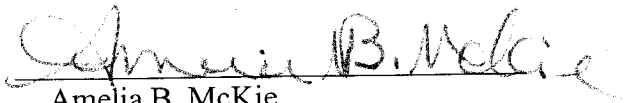
E. Wade Mullins, III, Esq.
Bruner Powell Robbins Wall & Mullins, LLC
1735 St. Julian Place
Columbia, South Carolina 29260

Shannon Bowyer Hudson, Esq.
Office of Regulatory Staff
1441 Main Street, Suite 300
Columbia, SC 29201

Scott Elliott, Esq.
Elliott & Elliott, PA
721 Olive Street
Columbia, SC 29205

Damon E. Xenopoulos, Esquire
Brickfield Burchette Ritts & Stone, P.C.
1025 Thomas Jefferson Street, NW – 8th Floor
Washington, District of Columbia 20007
Served by US Mail

HAYNSWORTH SINKLER BOYD, P.A.

By: 

Amelia B. McKie

P.O. Box 11889

1201 Main Street, 22nd Floor (29201)

Columbia, SC 29211-1889

(803) 779-3080 Tel

Date: March 22, 2006.

**REPLY TESTIMONY OF
GERHARD HAIMBERGER**

**ON BEHALF OF
SOUTH CAROLINA ELECTRIC & GAS COMPANY
DOCKET NO. 2006-2-E**

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**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
POSITION WITH SOUTH CAROLINA ELECTRIC & GAS
COMPANY (SCE&G).**

A. Gerhard Haimberger, 111 Research Drive, Columbia, South
Carolina. I am employed by SCANA Services, Inc. as General Manager-
Fuel Procurement providing fuel purchasing on behalf of SCE&G.

**Q. ARE YOU THE SAME GERHARD HAIMBERGER WHO HAS
PREVIOUSLY TESTIFIED IN THIS DOCKET?**

A. I am.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to respond to the testimony of Mr.
Goins, who appears on behalf of SMI Steel, concerning the hedging of
coal purchases

DATE: *OK D. Duke*
BY: *OK D. Duke*

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3 **Q. HOW DO YOU RESPOND TO THE TESTIMONY OF MR. GOINS,**
4 **CONCERNING THE HEDGING OF COAL PURCHASES?**

5 A. As stated in response to interrogatories from Mr. Goins' client, SMI
6 Steel, the coal that SCE&G purchases under long-term contract serves as a
7 physical hedge against price movements in coal markets. This is the case
8 because the prices paid under these long-term contracts are set in advance
9 with certain predetermined escalator clauses. As a result, short-term
10 swings in market prices for coal are not reflected in the cost of coal
11 delivered under these contracts.

12 As I stated in my direct testimony, as a general policy, SCE&G
13 seeks to have long-term coal contracts that represent approximately 75% to
14 80% of projected system demand. In addition, where possible, SCE&G
15 includes in long-term coal contracts variable quantity clauses which allow
16 SCE&G to increase the quantity of coal purchased under these fixed-
17 priced contracts when advantageous to SCE&G and its customers. During
18 the period under review, SCE&G purchased approximately 89% of its coal
19 requirements under long-term contracts.

20 Given the high proportion of coal requirements that are already
21 hedged, and the variability of SCE&G's coal demand year-to-year, it
22 would not be feasible or advisable for SCE&G to hedge additional

quantities of coal. Hedging above physical requirements is a form of speculation which the Company seeks to avoid.

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15 **Q. WHAT IS YOUR RECOMMENDATION TO THIS COMMISSION?**

16 **A.** SCE&G recommends that the Commission recognize a) that no
17 further hedging of coal prices is feasible

18

19 **Q. DOES THIS CONCLUDE YOUR REPLY TESTIMONY?**

20 **A.** Yes, it does.

21

22

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **ROSE JACKSON**

4 **ON BEHALF OF**

5 **SOUTH CAROLINA ELECTRIC & GAS COMPANY**

6 **DOCKET NO. 2006-2-E**

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8 **Q. PLEASE STATE YOUR NAME AND WHETHER YOU FILED DIRECT**
9 **TESTIMONY IN THIS DOCKET.**

10 **A. My name is Rose Jackson, and I previously filed direct testimony in this**
11 **docket on behalf of South Carolina Electric and Gas Company ("SCE&G" or**
12 **"Company").**

13 **Q. HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF WITNESS**
14 **O'DONNELL ON BEHALF OF SOUTH CAROLINA ENERGY USERS**
15 **COMMITTEE ("SCEUC") AND WITNESS GOINS ON BEHALF OF CMC**
16 **STEEL SOUTH CAROLINA FORMERLY KNOWN AS SMI STEEL-**
17 **SOUTH CAROLINA ("SMI STEEL") FILED IN THIS DOCKET?**

18 **A. Yes, I have.**

19 **Q. BEGINNING ON PAGE 9, LINE 1 THROUGH PAGE 11, LINE 7 OF HIS**
20 **PREFILED TESTIMONY, WITNESS O'DONNELL STATES THAT HE**
21 **DOES NOT BELIEVE SCE&G HAS DONE ALL WITHIN ITS POWER TO**

RETURN DATE: *OK D. Duke*
SERVICE: *OK D. Duke*

1 **MITIGATE NATURAL GAS PRICE VOLATILITY BECAUSE THE**
2 **COMPANY DID NOT HEDGE ITS NATURAL GAS REQUIREMENTS.**
3 **PLEASE RESPOND TO THIS CRITICISM.**

4 A. SCANA Corporation has many years of experience operating hedging
5 programs. If SCE&G genuinely believed that a hedging program for SCE&G's
6 purchases of natural gas for electric generation would be beneficial to the
7 Company and its customers, we would be the first to implement such a program.

8 However, for SCE&G's gas purchases for electric generation, there is
9 entirely too much variability of supply needs and timing of those needs to permit a
10 hedging program to operate with efficiency and predictability. For example, while
11 we know that SCE&G will likely burn natural gas at various times during a given
12 year, the Company cannot forecast when gas supplies will be needed or the
13 quantity. Moreover, hedges typically provide a uniform quantity of natural gas
14 delivered over a month or over the days of a given month, while electric
15 generation needs from natural gas vary widely from month-to-month, day-to-day,
16 and even hour-to-hour. Consequently, with a hedging program the Company
17 could be committed to purchase natural gas supplies at prices that are greater than
18 prices the Economic Resource Commitment Group calculates to be economical.

19 Furthermore, the Economic Resource Commitment Group is continually
20 evaluating the economic dispatch of SCE&G's various generation resources. That
21 evaluation includes current considerations of customer demand based upon

1 weather conditions, availability of various fuel supplies, and the price of various
2 fuel sources, among other factors. Consequently, because it is unknowable
3 whether natural gas will be called upon as a fuel source on any given day in the
4 long-term future, it would be speculative to attempt to forecast or predict the
5 Company's natural gas needs for electric generation on that future day or month.
6 Consequently, the Company would urge the Commission to reject any suggestion
7 that SCE&G implement a hedging program for its needs for natural gas supplies
8 for electric generation.

9 **Q. ON PAGE 12, LINE 17 THROUGH PAGE 13, LINE 18 OF WITNESS**
10 **GOINS' PREFILED TESTIMONY, HE RECOMMENDS THAT SCE&G**
11 **REVIEW, ANALYZE AND EVALUATE "THE POTENTIAL COST AND**
12 **BENEFITS OF DEVELOPING AND IMPLEMENTING A FINANCIAL**
13 **HEDGING PROGRAM FOR ITS COAL, NATURAL GAS, AND FUEL OIL**
14 **PURCHASES." WHAT POSITION DOES SCE&G TAKE ON THIS**
15 **RECOMMENDATION?**

16 A. SCE&G witness Gerhard Haimberger addresses in his rebuttal testimony
17 Mr. Goins' recommendation related to hedging for its coal and fuel oil purchases.
18 Regarding Mr. Goins' recommendation that SCE&G review, analyze and evaluate
19 costs and benefits for developing and implementing a financial hedging program
20 for natural gas purchases, the Company continually evaluates whether hedging its
21 natural gas purchases for electric generation would be beneficial to the Company

1 and its customers. Based upon these continual reviews and evaluations, SCE&G
2 believes that implementing financial hedging programs for SCE&G's purchases
3 of natural gas supplies for electric generation is speculative and therefore
4 unwarranted, and no further reviews, analyses or evaluations are needed or should
5 be undertaken at this time.

6 As stated above, SCE&G's purchases of natural gas are dependent upon a
7 host of factors that are unknown generally until the day of purchase or the day
8 before. Because of the wide variability of demand and need, SCE&G is unaware
9 of any reliable hedging program that would provide cost benefits to the Company
10 and its customers for its future purchases of natural gas for electric generation.
11 Thus, SCE&G does not believe that any additional or formal review, analyses or
12 evaluation of hedging programs for its purchases of natural gas for its electric
13 generation should be conducted and would urge the Commission to reject the
14 recommendation advanced by witness Goins.

15 **Q. WHAT REQUEST DO YOU MAKE OF THE COMMISSION IN**
16 **CONNECTION WITH THE CURRENT FUEL PROCEEDING?**

17 A. It is my firm belief that the Company has exercised prudence in the
18 purchase of all natural gas supplies during the period under review and we would
19 ask that the Commission permit full recovery of all natural gas costs, as well as all
20 other fuel costs incurred for the production of electric power for its customers
21 during the period under review. Moreover, the fact that the Company does not

1 employ a financial hedging program for its natural gas purchases for electric
2 generation should be found by the Commission to be reasonable and prudent, and
3 no further review, analysis or evaluation of financial hedging programs should be
4 ordered at this time.

5 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

6 **A. Yes.**

1 **REBUTTAL TESTIMONY OF**

2
3 **JIMMY E. ADDISON**

4 **ON BEHALF OF**

5
6 **SOUTH CAROLINA ELECTRIC & GAS COMPANY**

7
8 **DOCKET NO. 2006-2-E**

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11 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
12 **POSITION.**

13 **A.**My name is Jimmy E. Addison and my office is located at 1426
14 Main Street, Columbia, South Carolina. I am Vice President, Finance of
15 South Carolina Electric & Gas Company ("SCE&G") and hold a similar
16 position at SCANA Corporation, which is the parent company of SCE&G.

17 **Q. PLEASE DESCRIBE YOUR EDUCATION AND BUSINESS**
18 **BACKGROUND.**

19 **A.**I am a graduate of the University of South Carolina with a Bachelor of
20 Science Degree in Business Administration, majoring in accounting, and a
21 Master of Accountancy Degree. Also, I hold a certificate as a Certified Public
22 Accountant in South Carolina. Prior to my employment by the Company in
23 March 1991, I was employed for seven years by the certified public
24 accounting firm of Deloitte & Touche, where I was designated an Audit
25 Manager as a public utility accounting and audit specialist. I was also a

RETURN DATE: H. D. Duke
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1 partner in the public accounting firm of Hughes, Boan and Addison
2 immediately prior to joining the Company.

3 **Q. WHAT ARE YOUR DUTIES WITH SCE&G?**

4 **A.** As Vice President, Finance of SCE&G, I have responsibility for
5 planning, directing and overseeing the finance, accounting, treasury,
6 investor relations, sourcing and information technology functions.

7 **Q. HAVE YOU EVER TESTIFIED BEFORE THIS COMMISSION?**

8 **A.** Yes. I have testified in several proceedings before this Commission
9 including SCE&G's 1992, 1995, 2004 and 2005 rate cases.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 **A.** The purpose of my testimony is to respond to the proposal made by
12 the Office of Regulatory Staff, and adopted by the other intervenors in this
13 docket, that the Company not be allowed to recover its full fuel costs for
14 the upcoming period, but instead that the fuel factor be set to under-recover
15 SCE&G's fuel costs by an amount of approximately \$19 million.

16 **Q. PLEASE EXPLAIN.**

17 **A.** All the parties in this docket appear to be in agreement both as to the
18 amount of under-collection that the Company will carry on its books as of
19 April 30, 2006, and as to the fuel costs that that the Company is forecasted
20 to incur during the 2006-2007 forecast period. The direct testimony of the
21 ORS witnesses, Mrs. Cherry and Mr. Watts, clearly establishes the
22 amounts under consideration, and none of the intervenors, or for that matter

1 the Company, disagrees with their findings. The ORS proposal, however,
2 is that the Commission set a fuel factor that will collect approximately \$19
3 million less than SCE&G's combined forecasted fuel costs and the
4 outstanding amount of the current under-collection.

5 **Q. WHAT IS THE COMPANY'S POSITION WITH REFERENCE TO**
6 **THIS PROPOSAL?**

7 **A.** The Company position is that, absent an agreement by the Company
8 to the contrary, the fuel clause statute requires that the fuel factor be set to
9 recover the full amount of SCE&G's fuel costs. Specifically, §58-27-865
10 requires the Commission to set the factor at "an amount designated to
11 recover, through the succeeding 12-months, the fuel cost determined by the
12 Commission to be appropriate for that period, adjusted for the over-
13 recovery or under-recovery from the preceding 12-month period." S.C.
14 Code Ann. §58-27-865(b). SCE&G's position is that, absent agreement by
15 the Company to defer the full recovery of its costs, this statute does not
16 allow the recovery factor to be set at a level that deliberately requires the
17 Company to collect less than the full amount of forecasted fuel costs and
18 adjusted for its current under- or over-collection.

19 **Q. IN YOUR OPINION, DOES THE PROPOSAL MADE BY THE**
20 **OTHER PARTIES IN THIS DOCKET MEET THAT STANDARD?**

21 **A.** It does not. The proposal is that the Commission deliberately set a
22 fuel recovery factor that will under-recover SCE&G's actual fuel costs

1 during the period by approximately \$19 million.

2 **Q. HOW IMPORTANT IS FUEL COST RECOVERY TO THE**
3 **COMPANY?**

4 **A.** SCE&G, like other utilities, is operating during a period when rising
5 fuel costs have focused a great deal of attention on fuel cost recovery.
6 During the 12-month review period in this proceeding, for example, the
7 amount of fuel expense SCE&G incurred for its system was \$552 million.
8 That number is approximately two and one-half times greater than the
9 earnings allowed in the Company's most recent rate proceeding. (Order No.
10 2005-2, pp. 83, 101, 104). Given the magnitude and volatility of these fuel
11 expenses, SCE&G's investors and credit rating agencies are very concerned
12 about the degree of uncertainty concerning whether SCE&G will recover its
13 fuel costs in a timely fashion.

14 **Q. HAS SCE&G EVER AGREED TO DEFER FULL RECOVERY?**

15 **A.** Yes. During the last fuel proceeding, Docket No. 2005-2-E,
16 SCE&G agreed to a settlement with all parties. Under that settlement,
17 SCE&G agreed to defer collection of approximately \$19 million in fuel
18 cost recovery for one year. SCE&G agreed to that deferral in light of what
19 were then believed to be unique circumstances related to recent increases in
20 coal prices. However, SCE&G's commitment to that settlement was based
21 on its understanding that this deferral would last for one year only and that
22 the full amount of the under-recovery would be factored into rates in the

1 current fuel clause proceeding, as the Company believes that the statute
2 requires.

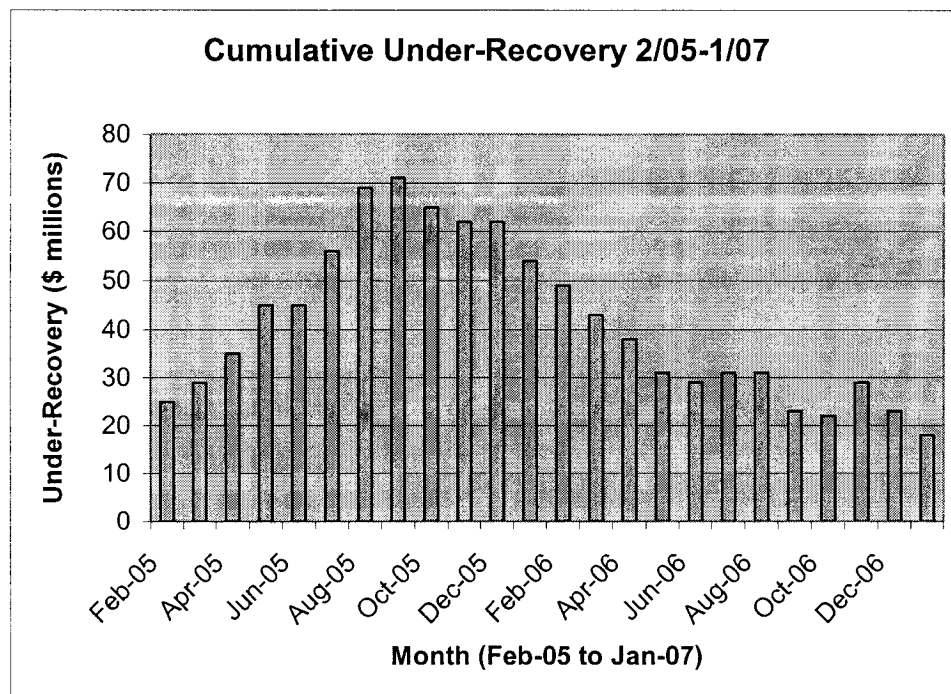
3 **Q. WHAT ARE THE COMPANY'S FINANCIAL CONCERNS WITH**
4 **REFERENCE TO A SECOND YEAR OF DEFERRAL?**

5 **A.** The Company is concerned that a second deferral of two years
6 would begin to set a precedent that fuel costs are not fully recoverable
7 under South Carolina's fuel clause statute and that the decision whether or
8 not to allow a Company to recover its actual fuel costs in a timely fashion is
9 discretionary. SCE&G does not believe that this is what the statute intends,
10 nor do we believe that it would be in the best interest of the Company's
11 financial health or the long-term interests of our customers to introduce this
12 level of uncertainty into fuel cost recovery. Delaying recovery of the full
13 amount of SCE&G's fuel costs for an additional year could lower the
14 Company's credit profile and increase the market's perception of the risks
15 involved in investing in the Company. This would result in customers
16 paying higher capital costs to finance the Company's construction program
17 to meet growth in customer demands.

18 **Q. WHAT IMMEDIATE IMPACT WOULD THE DEFERRAL OF AN**
19 **ADDITIONAL \$19 MILLION HAVE ON SCE&G'S FINANCES?**

20 **A.** If the proposed deferral is adopted, SCE&G will be required to carry
21 the \$19 million under-collection for two years before it could begin to
22 recover it. The average balance of the under-collection during this period,

1 however, is much higher than the \$19 million dollar figure would indicate.
2 The \$19 million figure is the low-point of under-collection that will be
3 reached in April of 2007, if the forecast is accurate. In fact, the under-
4 collection in April 2005 was \$35 million, and the under-collection in April
5 2006 is forecasted to be \$38 million. Due to seasonal and other factors, the
6 under-collection balance in five of the twelve months of the 2005-2006
7 review period was above \$60 million. See Exhibit JRC 7, pages 1-2. Even
8 without the deferral, the average under-collection for the period February
9 2005 through January 2007 is forecasted to be \$41 million.



11 In short, the Company is already incurring the cost to finance
12
13 substantial fuel-cost under-collections. Adding a \$19 million deferral to
14

1 these amounts only compounds the financial strain. Additionally, if the
2 ORS proposal is adopted, SCE&G would be required to wait until 2007-
3 2008 to begin recovering the deferred \$19 million. As a result, SCE&G
4 will maintain a significant under-recovered fuel balance for a period on the
5 order of 36 months (*i.e.*, February 2005 to January 2008) which is three
6 times the period contemplated by the fuel statute.

7 The duration of the delay between incurring this fuel cost expense
8 and its collection makes this item a long-term financing obligation. If
9 required to carry this cost for more than one year, SCE&G's overall cost of
10 capital would be an appropriate measure of the cost of financing this
11 expense. SCE&G's current Commission-approved cost of capital, as
12 established in Order No. 2004-178-E, is 8.64%. Accordingly, the cost to
13 SCE&G of carrying \$19 million for two years and then collecting it in
14 monthly installments over the third is approximately \$4 million dollars,
15 even without compounding.

16 **Q. WOULD SCE&G CONSIDER A DEFERRAL UNDER ANY**
17 **CIRCUMSTANCES?**

18 **A.** Any deferral would have to protect fully SCE&G's financial
19 interests during the time of the deferral and clearly signal this fact to the
20 investment community and the debt rating agencies. This would require
21 that the Commission allow interest on the deferred amount at SCE&G's
22 8.64% weighted-average cost of capital from the period beginning May

1 2006 until the balance of the \$19 million is fully recovered in January 2008.

2 Under such circumstances, SCE&G would be willing to waive its statutory
3 right to collect the \$19 million during the 2006-2007 period provided that
4 all parties to this docket and the Commission agreed to this resolution and
5 have agreed that no precedent is created by this arrangement. Failing such
6 an agreement, SCE&G would ask the Commission to follow the terms of
7 the fuel clause statute and set SCE&G's fuel cost recovery factor at the
8 level required to recover the prior-period under-collection as well as the
9 forecasted cost of fuel for SCE&G for the 2006-2007 period.

10 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

11 **A.**Yes, it does.